



The Commonwealth of Massachusetts

Office of the Commissioner of Banks

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To Whom It May Concern:

The financial services industry, an important segment of which is regulated by the Division of Banks ("Division"), continues to change rapidly and grow increasingly more complex. Consolidation, new technologies, and innovative product offerings will continue to impact this industry and the consumers who utilize their services in 2004 and beyond.

The mission of the Division is to ensure a sound, competitive, and accessible financial services environment. The economy in Massachusetts languished somewhat in 2003 due to the high unemployment rate, on-going war in Iraq, and market timing scandals within the mutual fund industry. Nevertheless, the banking industry remained sound. The Division's diligence in assessing loan underwriting practices in previous years has enabled state chartered financial institutions to weather tough economic conditions. Through the examination process, the Division will remain vigilant in its ongoing examination programs to ensure that all institutions adhere to sound financial principals and standards.

The Division is also reviewing emerging risks to ensure that the banking and financial services industries are healthy and that consumers are adequately protected. The Division continues to review lending practices to ensure that predatory lending is identified and eradicated, while ensuring safety and soundness risk is minimized.

The following pages include an agency profile, an overview of the industries the Division supervises, a summary of salient market and financial data for Trust Companies, Savings banks, Co-operative Banks, and Credit Unions, a summary of transactions and legislative and regulatory changes and proposals, as well as consolidated financial data and institution specific management teams and branch locations.

As described herein, Chapter 456 of the acts of 2002 amended the form and content of this annual report to the Legislature. I am pleased to forward this annual report pursuant to this amended statute. It was the Division's intention in filing the amendments to this statute to be able to combine four reports that previously had been filed separately into one report that would more comprehensively describe and analyze trends affecting the Commonwealth's financial services industry, as well as the Division's responses and policy recommendations. As always, I would welcome your suggestions on additional information or analyses that would be helpful to you, and any other improvements you would recommend.

Very truly yours,

Steven L. Antonakes
Commissioner of Banks

I. INTRODUCTION

The Division's mission is to advance the public interest with the highest level of integrity and innovation by ensuring a sound, competitive, and accessible banking and financial services environment. Its 175 managers, examiners, and support staff are responsible for conducting financial safety and soundness, consumer compliance, community reinvestment act compliance, electronic data processing, and trust examinations of these institutions. Accordingly, the Division plays a key role in maintaining depositor confidence in the state's banking system and fostering a positive impact on the Commonwealth's economy.

The Division traces its origin to 1784 with the chartering of The Bank of Massachusetts, the forerunner of the former First National Bank of Boston. Records dating back to 1839 reveal the existence of 118 Massachusetts banks with total combined assets of \$53 million. Today, the Division supervises nearly 300 state-chartered banks and credit unions with total combined assets in excess of \$200 billion.

The Division also is charged with licensing and examining over 4,000 non-bank financial entities, including mortgage companies, finance companies, check cashers, money transmitters, and collection agencies. These organizations are also regularly examined for financial safety and soundness and compliance with various consumer protection laws and regulations.

2003 Accomplishments

- Amended "wildcard" regulations to enhance the competitive equality of state chartered banks and credit unions to ensure consumer access to financial services.
- Implemented an improved anti-money laundering program to enhance the Division's supervision of depository institutions and money service businesses. The improved program includes enhanced techniques to detect unlicensed and illegal activity.
- Further integrated existing databases to improve the supervision of financial institutions and enhanced learning throughout the Division.
- Modified and streamlined the corporate applications process and expanded the use of online submission of applications.
- Completed 259 bank and credit union examinations and 337 examinations of non-bank licensees
- Issued over 4,500 license renewals and processed 646 new license applications
- Completed 500 bank, credit union, and licensee approval requests and issued 137 legal opinions
- Resolved 1,040 consumer complaints

2004 Objectives

- Maintain a sound, competitive, and accessible banking and financial services environment by enhancing the statutory and regulatory structure and the examination and supervisory process for regulated entities.
- Improve the existing regulatory and business climate by streamlining processes, implementing risk-focused supervisory policies, and by expanding the use of technology.
- Safeguard consumers through expanded financial literacy and consumer education programs, wider access to meaningful consumer information, and strong enforcement of consumer protections

II. 2003 REGULATORY OVERVIEW

As of December 2003, the state-chartered banking industry in Massachusetts is in sound financial condition. Capital levels, which represent an institution's ability to absorb losses and fund growth remains solid. At the same time, earnings performance has been sufficient to continue to augment capital levels. However, the continued historically low interest rate environment has put pressure on margins and challenged management teams to improve earnings through alternative means.

Asset quality continues to remain sound as well, with minimal delinquency levels reported in almost all loan categories. This is remarkable given the sustained high levels of unemployment within the Commonwealth. Again, credit for the strong asset quality can be partially attributed to the continued appreciation in real estate values coupled with satisfactory underwriting and credit administration practices. In 2003, unlike in 2002, investment portfolios did not suffer significantly from elevated levels of depreciation. Rather, investment portfolios assisted in the stabilization of earnings performance and capital levels.

Liquidity levels remained strong again in 2003. With many institutions experiencing growth in deposit accounts, due largely to consolidation within the industry and abundant access to secondary sources, liquidity levels should remain plentiful. At the same time, exposure to interest rate risk has been mitigated through the implementation of prudent investment strategies. Nevertheless, management's ability to manage the balance sheet will remain a focus of the Division's supervision program, as interest rates are expected to rise in the near future due to improvements in the economy.

Finally, the Boards of Directors/Trustees and senior operating management are considered sound, capable, and seasoned. They have developed and implemented operating policies, procedures, strategies, and risk management practices that provide a framework for sound operations. At the same time, expansion through branching and emphasis on development and construction lending will challenge bank management teams to ensure that they continue to employ the sound underwriting and credit administration that helped them weather the economic downturn.

The year 2003 also was not without its share of widely publicized scandals. In 2003, the focus was again on corporate governance issues. Market timing within the mutual fund industry seemed to be the focus. As a result, investments in mutual funds declined significantly at those firms caught up in the scandal. Subsequently, changes in the oversight of the individual funds have been proposed to ensure that investor interests are protected.

At the same time, compliance with the Bank Secrecy Act (BSA) and Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT Act) continued to be a priority for the Division's examination staff. In the wake of the tragic events of September 11, 2001, Congress enacted the USA PATRIOT Act in part to stem the flow of funds to terrorists. The Division has substantially revised examination practices and programs to identify illicit and suspicious activities. To ensure that these activities are identified and addressed, the Division has provided advanced training to all examiners and almost all managers. Through collaborative partnerships with industry groups and other State and Federal Regulators, the Division's examination staff has the necessary tools to properly monitor compliance with these regulations.

In December, Household Finance Corporation mailed checks to nearly 11,000 Massachusetts residents in compliance with the historic settlement reached with Bank Commissioners and Attorneys General across the country in 2002. The settlement aimed to compensate victims of Household's predatory practices and to prevent future predatory lending. The total restitution to Massachusetts consumers was \$13,525,447. In addition to the settlement with Household, the Division settled two separate cases for violations of unfair and deceptive acts and practices or the Division's High Cost Home Loan regulations. Those two settlements resulted in over \$5 million in consumer restitution. The Division continues to maintain its zero-tolerance policy regarding predatory lending practices.

On July 31, 2003, the Division of Banks sent a letter to all state-chartered bank and credit unions and all licensed mortgage lenders and brokers reminding them of the Division's long-standing position with regard to expiring mortgage rate locks. Essentially, if the rate lock expires through no fault of the borrower, the Division holds the lender responsible for honoring the original terms of the locked rate. In addition, the letter reminded the industries that a broker is not allowed to engage in rate lock commitments. Later that summer, after receiving numerous consumer complaints, and after conducting follow-up targeted examinations for possible rate lock violations, the Division issued seven cease and desist orders.

In March, the Division sent a letter to over 1,200 tax preparers warning them of the need to obtain a license if they wished to broker Refund Anticipation Loans (RALs). At the same time, the Office of Consumer Affairs warned consumers to avoid the high cost of RALs by filing their taxes early or finding low cost or no cost alternatives to obtain the

refund earlier. In December, the Division sent another letter to tax preparers reminding them of the need to obtain a license before the beginning of the tax season.

In the fall of 2003, members of the Division's senior management conducted 14 focus group meetings with bank and credit union chief executive officers. The purpose of the meetings was to explore ways to improve the existing Massachusetts business climate to allow banks and credit unions to more effectively compete. The meetings also solicited feedback on the quality of the Division's supervision. Over 190 executives participated in meetings across the Commonwealth. These meetings provided valuable input to the Division. Various suggestions voiced during the meetings have been considered and implemented. Some of these suggestions include: improving the use of technology to further develop the Division's website as a resource, eliminate unnecessary applications and reduced content requirements for retained applications, seek to reduce regulatory burden through revising regulations and streamlining examination processes, encourage industry affordable housing financing initiatives, and address identity theft through financial education and laws consistent with federal preemption constraints.

Finally, Commissioner Thomas J. Curry was nominated by President George W. Bush to fill a vacancy on the Board of Directors of the Federal Deposit Insurance Corporation. The nomination and subsequent confirmation by the U.S. Senate is a distinguished honor for Commissioner Curry and the Division of Banks. Commissioner Curry played an integral role in resolving the issues that resulted from the New England banking crisis in the late 1980's and early 1990's, and promulgated regulations that furthered consumer protection statutes within the Commonwealth. Commissioner Curry joined the Division in 1986 and leaves behind a legacy of fostering sound financial practices, competition, and product innovation in the banking industry while at the same time ensuring wider access to credit and financial services to individuals, businesses, and communities.

III. SUMMARY OF MAJOR CORPORATE TRANSACTIONS

The number of state-chartered financial institutions was reduced by six during the year as a result of mergers, from 293 to 287. Five of the transactions were mergers among state-chartered institutions. The sixth transaction was the conversion from a state charter to a federal charter. None of these transactions were between banks within the same holding company and none involved state-chartered banks merging with and into out-of-state banks.

Of the six transactions resulting in a reduction of state-chartered financial institutions, one involved a state-chartered savings bank, one involved a state-chartered co-operative bank, one involved a state-chartered trust company, and three involved state-chartered credit unions, as follows:

- ***State-chartered Savings Banks:*** One merger was a state-chartered savings bank merging with and into a state-chartered trust company. Two other transactions involved federally-chartered banks merging with and into state-chartered savings banks.

- ***State-chartered Co-operative Banks:*** One state-chartered co-operative bank merged with and into another state-chartered co-operative bank, with a new name.
- ***State-chartered Trust Companies:*** One state-chartered trust company converted to a federal charter under a new name.
- ***State-chartered Credit Unions:*** There were three transactions involving state-chartered credit unions merging with and into other state-chartered credit unions. Two of the state-chartered credit unions merged with and into the same state-chartered credit union. There was one federally-chartered credit union that merged with and into a state-chartered credit union.

During the year, four state-chartered savings banks completed their reorganizations into mutual holding companies. Two of the four state-chartered savings banks involved in these transactions also formed mid-tier holding companies. One state-chartered co-operative bank completed its reorganization into a mutual holding company.

At the end of the year, the state-chartered banking system consisted of 80 savings banks, 73 co-operative banks, 26 trust companies, and 108 credit unions. The Division also has one building and improvement association and one out-of-state private bank under its jurisdiction, which are included in this annual report.

Despite the overall decrease in state-chartered financial institutions, there has been an increase in the net number of branches. There was a net increase of 10 state-chartered savings bank branches from 545 branches in 2002 to 555 branches in 2003. There was a net increase of nine state-chartered co-operative bank branches from 121 branches in 2002 to 130 in 2003. There was a net increase of 22 state-chartered trust company branches from 437 branches in 2002 to 459 branches in 2003. There was a net increase of three in state-chartered credit union branches from 87 in 2002 to 90 branches in 2003.

IV. NEW BANKING LAWS

The Division notes passage of the following bill in the first year of the 2003-2004 session of the General Court:

- **Chapter 130 of the Acts of 2003, An Act Relative to Debt Collection and Loan Servicing Agencies**

One of the twelve legislative recommendations filed by the Division for the 2003-2004 legislative session, the major provisions of Chapter 130 of the Acts of 2003, (the “Act”), is as follows:

This Act substantially rewrites the debt collection agency laws to be more closely in line with the Federal Debt Collection Practices Act, to modernize the enforcement actions available to the Commissioner and to

add a provision requiring third party loan servicers, as defined, to register with the Division. Other changes are also made by this Act.

The most significant change is to differentiate between a debt collector and a third party loan servicer. Those entities which meet the definition of loan servicer are subject to a registration requirement with the Division of Banks, but not be subject to a formal licensing process. This Act seeks to distinguish between a business entity principally engaged in the collection of debt versus one primarily servicing loans. Under the prior statute a loan servicer collecting payments thirty days past due triggered the debt collection licensing statutes. This Act also changed the prior statute by requiring only entities which collect debt from consumers to be licensed. The change is made by the definition of debt. Previously, the collection of commercial or consumer debt required a license.

A second major purpose of this Act is to modernize the list of regulatory enforcement actions against a licensed debt collection agency available to the Division. Cease and desist orders, as well as authority to revoke and suspend a license, are provided. Other additions include the authority to take civil action in any court; summoning the production of records or appearance before the Division; and on investigating for compliance with the debt collection laws.

Other changes made include making the list of financial institutions exempt from licensing uniform with other licensing statutes and specifying in statute that the Division's reports of examinations of debt collectors are not public records. In addition, this Act seeks to establish a uniform \$25,000 surety bond requirement rather than the present sliding scale based on twice the average net monthly collections up to a maximum amount of \$25,000. The present minimum bonding amount is \$10,000.00 for the initial license.

The Act became effective on February 24, 2004. In order to fully implement the Act, the Division began amending its regulations, 209 CMR 18.00 *et seq.*, *Conduct of the Business of Debt Collectors and Loan Servicers*, and 209 CMR 48.00 *et seq.*, *Licensee Record Keeping*, which became effective on August 27, 2004.

V. REGULATIONS

Technical amendments, all of which became effective on January 3, 2003, were made to the following regulations:

- 209 CMR 32.00: Disclosure of Consumer Credit Costs and Terms;

- 209 CMR 34.00: Maximum Loan Limitations for Certain Classes of Mortgage Loans;
- 209 CMR 38.00: Disclosure of Certain Information and Terms Relative to the Mortgage Application and Approval Process.

In addition, 209 CMR 51.00, Year 2000 Operational Safety and Soundness Standards, was repealed in its entirety, effective January 3, 2003. This regulation had contained a sunset provision of December 31, 2001.

During 2003, there were amendments to 209 CMR 47.00, Parity with National Banks, at 209 CMR 47.01 and 209 CMR 50.00, Parity with Federal Credit Unions, at 209 CMR 50.01. Additionally, the Division began reviewing further amendments to its regulations, all of which were filed in 2004: 209 CMR 47.00; 209 CMR 50.00; 209 CMR 18.00, The Conduct and Business of Collection Agencies, and 209 CMR 48.00, Licensee Record Keeping, in order to implement Chapter 130 of the Acts of 2003; and 209 CMR 42.00, The Licensing of Mortgage Lenders and Mortgage Brokers, relative to rate locks.

VI. LEGISLATIVE RECOMMENDATIONS

The legislative recommendations of the Division of Banks for the 2003-2004 session have several goals, but the overarching purpose is to protect consumers while enabling financial institutions and the Division's ten categories of licensees to remain competitive without compromising safety and soundness. One of the main focuses of the legislative package is to enhance statutory protections against predatory lending and other unfair mortgage lending-related practices. Several other recommendations seek to streamline and modernize existing laws. Included within this category is a recommendation to primarily rewrite Massachusetts General Laws chapter 167E, governing mortgage loans; another recommendation would eliminate the numerous inconsistencies in statutes relative to conversions of state-chartered institutions to federal charters; and a third recommendation would completely rewrite the debt collection statutes. In addition, there are also recommendations to overhaul many of the statutes governing the Division's ten categories of licensees to reflect modern practices, avoid duplication, provide consistency, and to strengthen the Division's ability to protect consumers through stronger licensing oversight and regulatory enforcement actions available to the Division.

The Division of Banks has filed twelve recommendations for consideration by the General Court for the 2003-2004 legislative session. Two of the proposals are new recommendations; three of the proposals combine significant new proposals as well as language from the previous recommendations; and seven of the proposals are refiles, with some modifications, from the previous legislative session. A brief description of each recommendation is set forth below.

The Division's two new legislative recommendations are as follows:

- **An Act Relative to the Conversion by a Massachusetts-Chartered Bank or Credit Union to a Federal or Other Charter, House 11**

This recommendation provides the authority for a state-chartered bank or credit union to convert to a federal charter, and establishes the corporate governance structure for such a conversion. The provisions will establish the notice, meeting, and required vote of the depositors or members for a bank or credit union to convert its charter. Review of the notice, process and approval by the Division are also specified in the recommendation.

- **An Act Relative to the Licensing and Supervision of Financing Companies by the Division of Banks, House 15**

Currently, the Division licenses four different entities under four different statutes of the Massachusetts General Laws which are involved primarily in the extension of credit to consumers. This recommendation seeks to combine the provisions of those four statutes into one new chapter of the Massachusetts General Laws governing finance companies. The new chapter would be a complete body of law governing this type of business as well as provide the Division with all necessary regulatory authority.

The Division's three recommendations combining new proposals with language from the previous legislative session are as follows:

- **An Act to Prevent Abusive Mortgage Lending Practices, House 9**

This recommendation includes two recommendations from past filings and four new proposals, all related to abusive mortgage lending practices. One previously filed provision of this recommendation clarifies that services on a residential home which are secured by a lien on the property will require a mortgage lender license. The second previously filed provision makes several changes to the statute protecting consumers prepaying certain mortgage loans. The first new provision authorizes the Division to conduct fair lending examinations on any licensed mortgage lender making 50 or more loans in a year. The second new provision is to eliminate the licensing exemption for non-profit entities in Massachusetts General Laws chapter 255E, §2. The third new provision is to delete the exemption standard for "associated with and under the direction of..." in Massachusetts General Laws chapter 255E, §2, which governs exemptions from the mortgage lender and broker licensing statute. The fourth new provision eliminates simple interest mortgage loans.

- **An Act Relative to Confidentiality and Access to CORI Data, House 10**

This recommendation combines one previously filed recommendation, as changed and expanded, and four new proposals. The amended provisions of the previously filed recommendation seek to establish the confidentiality of examination reports and other information of licensees of the Division of Banks. The first new proposal is to designate the Division as a “law enforcement agency” to have access to CORI data. The second new proposal would expand confidentiality provisions of bank examinations in section 2 of Massachusetts General Laws chapter 167. The third new proposal is an additional provision relative to sharing examination and licensing information with other states. The fourth new proposal authorizes the Commissioner to summon directors, officers or agents of a licensee, or any other witness to examine them relative to the affairs, transactions and condition of the licensee. Whoever, without justifiable cause, refuses to appear or obstructs such examination shall be punished by a fine of not more than \$1,000 or by imprisonment for not more than one year.

- **An Act Establishing Uniform Enforcement Provisions and Making Other Changes Applicable to Certain Licensees under the Jurisdiction of the Division of Banks, House 14**

This recommendation combines provisions from two previously filed recommendations, as well as new language to provide technical amendments to Massachusetts General Laws chapter 169, relative to the Receipts of Deposits for Transmittal to Foreign Countries.

The amended provisions of the first previously filed recommendation seek to establish a uniform set of regulatory enforcement powers and exemptions with respect to several licensees under the jurisdiction of the Division. It also addresses the confidentiality of the Division’s examinations of these licensees. The recommendation also seeks to update the coverage of the statute governing loans of \$6,000 or less for small loans, so-called by increasing the amount from \$6,000 to \$9,000 with an annual adjustment based on the Consumer Price Index.

The provisions of the second previously filed recommendation seek to create a uniform exemption for regulated financial institutions from the statutes governing licensees and to make two more of the Division’s licensing statutes, relative to collection agencies and check sellers, applicable exclusively to consumer transactions. This recommendation includes the Division’s proposed amendments to allow the Division to set annual renewal dates for licensees.

The technical amendments to chapter 169 would update the Commonwealth's statute governing the licensure of foreign transmittal agencies.

The Division's remaining seven recommendations were before the Legislature in some form in the past session or sessions. They have been updated and modified to reflect amendments made or offered as well as to reflect other changes which may have occurred.

- **An Act Modernizing Lending and Investment Statutes for State-Chartered Banks, House 12**

This recommendation seeks to substantially modify and modernize Massachusetts General Laws chapter 167E, governing loans by state-chartered banks. One major change is also made in chapter 167F, governing investments by state-chartered banks, to reflect passage of the Gramm-Leach-Bliley federal act.

- **An Act Relative to Debt Collection and Loan Servicing Agencies Subject to Supervision by the Division of Banks, House 13**

As noted above, this recommendation was signed into law as Chapter 130 of the Acts of 2003. This Act substantially rewrites the debt collection agency laws. It would modernize the enforcement actions available to the Commissioner and add a provision requiring third party loan servicers, as defined, to register with the Division. Other changes are also made.

- **An Act Relative to Certain Actions by and Transactions before the Board of Bank Incorporation and the Commissioner of Banks, House 18**

This recommendation seeks to streamline the approval process for transactions involving interim banks and bank holding companies.

- **An Act Relative to the Establishment of a Limited Purpose Trust Company Subject to the Supervision of the Commissioner of Banks, House 19**

This recommendation of the Division of Banks seeks to authorize a charter for a non-FDIC insured limited purpose trust company in the Commonwealth to conduct only trust and fiduciary operations while neither receiving deposits nor making loans.

- **An Act Relative to Establishing a Mutual Bank Charter in the Commonwealth, House 20**

This recommendation seeks to establish a new bank charter within the General Laws for a mutual bank.

The Division notes that the following recommendations were signed into law at the end of the 2001-2002 session:

- **An Act Relative to the Annual Report to the Legislature on the Banking Industry by the Commissioner of Banks, House 16**

This recommendation became law after the legislative filing deadline as Chapter 456 of the Acts of 2002. This recommendation seeks to make significant changes to the form and content of the annual report of the Commissioner of Banks to the Legislature relative to the banking industry in the Commonwealth.

- **An Act Eliminating the Collection and Dissemination of Certain Reports by the Division of Banks, House 17**

This recommendation became law after the legislative filing deadline as Chapter 455 of the Acts of 2002. This recommendation seeks to relieve the regulatory burden on the Division of Banks by eliminating the requirement to collect certain information from regulated entities and to publish the information collected in the form of reports.

TRUST COMPANIES

The Commonwealth's trust companies remained in sound financial condition for calendar year 2003. Asset growth in 2003 amounted to \$2,700,351 or 2.52%. The historically low interest rate environment continued throughout the year, while capital markets rebounded somewhat. The gains in capital market segments eased investor tension, which resulted in slower growth in interest bearing deposits. In 2002, interest bearing deposits grew by \$12,473,498, or almost 30%, while in 2003, growth was limited to just \$2,117,965, or 3.88%. Investments in securities once again gained the most in 2003, growing \$14,630,269, or 37.25%, while net loans and leases showed modest growth of \$630,506, or 4.48%.

Earnings performance was solid overall in 2003. The interest rate environment slowed earnings performance, as net interest income declined \$222,553, or 12.30%. The decline in net interest income was a result of the sustained interest rate environment coupled with difficulties in realizing additional cost savings by further lowering the aggregate cost of deposits due to competitive pressures. At the same time, the interest rate environment further reduced interest income on loans, as residential refinancing continued and commercial loans repriced downward. Improvement in capital market indices were reflected in the increases in income from fiduciary activities, trading revenues, investment banking, advisory, brokerage fees, and commissions. At the same time, all other noninterest income more than doubled from \$515,361 in 2002 to \$1,057,420 in 2003, as banks looked to improve income by modifying their fee structure for various services. Despite these impressive results, net income declined by \$261,354, or 20.14% due to the decline in interest income.

Throughout 2003, the Commonwealth's trust companies combined equity capital grew by \$984,732, or 13.31%, which resulted in an increase in the industry's overall capital to assets increased from 6.91% in 2002 to 7.63% in 2003.

Trust Companies

Statement of Condition - December 31, 2003

Assets

| | 12/31/2002 | 12/31/2003 |
|--|--------------------|--------------------|
| Non Interest Bearing Balances | \$ 2,099,875 | \$ 4,103,957 |
| Interest Bearing Balances | 28,749,428 | 22,122,210 |
| Securities Held to Maturity | 5,510,006 | 6,422,041 |
| Securities Available for Sale | 33,761,352 | 47,479,586 |
| Federal Funds Sold & Securities Purchased Under Agreement to Resell | 15,103,957 | 1,165,219 |
| Loans and Leases Held for Sale | 259,240 | 240,812 |
| Loans and Leases, Net of Unearned Income | 14,272,312 | 14,885,721 |
| Allowance for Loan and Lease Losses | 205,998 | 188,901 |
| Net Loans and Leases | 14,066,314 | 14,696,820 |
| Trading Assets | 2,863,805 | 4,200,750 |
| Bank Premises and Equipment | 791,781 | 866,619 |
| Other Real Estate Owned | 5,571 | 4,288 |
| Investment in Unconsolidated Subsidiaries | 36,839 | 45,296 |
| Customers Acceptances Outstanding | 101,331 | 32 |
| Goodwill | 783,155 | 1,651,362 |
| Intangible Assets | 158,120 | 553,027 |
| Other Assets | 2,784,671 | 3,373,902 |
| Total Assets | 107,075,445 | 109,775,796 |

Liabilities

| | | |
|--|-------------------|--------------------|
| Non Interest Bearing Deposits | 10,794,873 | 11,484,429 |
| Interest Bearing Deposits | 54,545,319 | 56,663,284 |
| Total Deposits | 65,340,192 | 68,147,713 |
| Federal Funds Purchased & Securities Sold Under Agreement to Repurchase | 24,008,296 | 22,872,875 |
| Trade Liabilities | 2,373,032 | 3,612,800 |
| Other Borrowed Money | 4,435,676 | 2,440,386 |
| Liabilities on Acceptances | 101,331 | 32 |
| Subordinated Notes and Debentures | 700 | 408,553 |
| Other Liabilities | 3,383,456 | 3,878,531 |
| Total Liabilities | 99,642,683 | 101,360,890 |
| Minority Interest in Consolidated Subsidiaries | 36,565 | 33,977 |

Equity

| | | |
|--|--------------------|--------------------|
| Preferred Stock | 23,461 | 23,195 |
| Common Stock | 95,064 | 94,176 |
| Surplus | 1,869,684 | 2,163,979 |
| Retained Earnings | 5,239,515 | 5,941,506 |
| Accumulated Other Comprehensive Income | 205,138 | 205,606 |
| Other Equity Capital | (36,665) | (47,533) |
| Total Equity Capital | 7,396,197 | 8,380,929 |
| Total Liabilities, Minority Interest and Equity Capital | 107,075,445 | 109,775,796 |

Trust Companies

Statement of Income - December 31, 2003

| | 12/31/2002 | 12/31/2003 |
|--|-------------------|-------------------|
| Total Interest Income | \$ 3,057,547 | \$ 2,480,041 |
| Total Interest Expense | 1,247,640 | 892,687 |
| Net Interest Income | 1,809,907 | 1,587,354 |
| Provision for Loan and Lease Losses | 29,053 | 7,616 |
| Income From Fiduciary Activities | 3,272,848 | 3,753,123 |
| Service Charges | 62,279 | 64,528 |
| Trading Revenue | 230,794 | 339,710 |
| Investment Banking, Advisory, Brokerage fees and Commissions | 162,169 | 176,756 |
| Venture Capital Revenue | (1,061) | (410) |
| Net Servicing Fees | 13,277 | 11,151 |
| Net Securitization Income | 690 | 20 |
| Insurance Commission and Fees | 378 | 386 |
| Net Gains (Losses) on sale of Assets | 568,569 | 37,258 |
| All Other Noninterest Income | 515,361 | 1,057,420 |
| Total Noninterest Income | 4,825,304 | 5,439,942 |
| Realized Gains (Losses) on Held-To-Maturity Securities | (4,320) | 0 |
| Realized Gains (Losses) on Available-For-Sale Securities | 89,210 | 40,178 |
| Salaries and Employee Benefits | 2,489,972 | 2,517,138 |
| Expenses of Premises and Fixed Assets | 760,226 | 994,487 |
| Goodwill Impairment Losses | | 0 |
| Amortized Expenses and Impairment Loss For Other Intangibles | 27,601 | 40,301 |
| Other Noninterest Expense | 1,406,732 | 1,868,744 |
| Total Noninterest Expense | 4,684,531 | 5,420,670 |
| Income (Loss) Before Income Taxes | 2,006,517 | 1,639,188 |
| Applicable Income Taxes | 705,087 | 602,140 |
| Income (Loss) Before Extraordinary Items | 1,301,430 | 1,037,048 |
| Extraordinary Items | (3,717) | (689) |
| Net Income (Loss) | 1,297,713 | 1,036,359 |

SAVINGS BANKS

The savings bank industry within the Commonwealth experienced strong asset growth of \$6,184,648, or 8.70% from calendar year end 2002 to 2003. The largest area of growth was in loans and leases, which increased by 13.43%, or \$5,356,339. The impressive growth in loans was largely due to banks seeking to improve asset yields. With the continued historically low interest rate environment, banks were forced to seek ways to improve their overall asset yields. The interest rate environment resulted in continued low yields on investment securities. However, investment securities grew by 6.21%, or \$1,470,182. The continued strength of the residential real estate market was an important factor in the continued success of the industry. However, unlike in 2002, banks decided to retain some of the residential mortgage loans in their portfolio to improve yields. More specifically, in June 2003, mortgage interest rates spiked, which contributed to the decision making process to retain loans. A further reflection of the condition of the industry is the continued decline in other real estate owned from \$30,477 on December 31, 2002 to \$29,650 on December 31, 2003. The 2.71% decline is reflective of the continued sound underwriting and credit administration practices in effect at the institutions.

At the same time, savings banks continued to expand their customer base through increased branch networking. Investment in premises and equipment increased by \$26,040, or 3.41%. Additionally, more institutions expanded the utility of their internet presence by offering customers more flexibility to obtain updated account information, conduct bill payments, and complete banking transactions.

Earnings performance for the industry also continues to be sound. Despite the continued historically low interest rate environment, net interest income increased \$72,990, or 3.28%. The increase in net interest income is more modest than in 2002, due to management's difficulty in realizing additional savings by lowering the aggregate cost of deposits. Continued expansion of bank services and branching, resulted in noninterest expenses increasing by \$121,080, or 7.50%. However, increased revenue from service charges of \$13,083, or 7.99% somewhat offset the increased expenses. Additionally, all other noninterest income gained \$23,879, or 14.58%. Management's ability to control costs and enhance noninterest income resulted in an increase of \$33,898, or 5.05% in net income for the year.

Overall, the savings bank industry had the financial strength and leadership to successfully weather the economic downturn.

* All dollar amounts are reported in thousands.

Savings Banks

Statement of Condition - December 31, 2003

| Assets | 12/31/2002 | 12/31/2003 |
|--|-------------------|-------------------|
| Non Interest Bearing Balances | \$ 1,368,173 | \$ 1,181,464 |
| Interest Bearing Balances | 165,854 | 122,559 |
| Securities Held to Maturity | 1,976,309 | 2,214,075 |
| Securities Available for Sale | 21,704,297 | 22,936,713 |
| Federal Funds Sold | 1,450,341 | 749,326 |
| Securities Purchased Under Agreement to Resell | 27,700 | 30,200 |
| Loans and Leases Held for Sale | 501,217 | 101,365 |
| Loans and Leases, Net of Unearned Income | 39,895,755 | 45,252,094 |
| Allowance for Loan and Lease Losses | 529,806 | 545,647 |
| Net Loans and Leases | 39,366,949 | 44,706,447 |
| Trading Assets | 65,344 | 85,082 |
| Bank Premises and Equipment | 763,849 | 789,889 |
| Other Real Estate Owned | 30,477 | 29,650 |
| Investment in Unconsolidated Subsidiaries | 530 | 1,442 |
| Customers Acceptances Outstanding | 3,075 | 4,684 |
| Goodwill | 1,715,680 | 2,074,400 |
| Intangible Assets | 204,506 | 231,801 |
| Other Assets | 1,705,220 | 1,974,072 |
| Total Assets | 71,048,521 | 77,233,169 |
| Liabilities | | |
| Non Interest Bearing Deposits | 5,864,373 | 6,338,272 |
| Interest Bearing Deposits | 48,861,155 | 52,153,658 |
| Total Deposits | 54,725,528 | 58,491,930 |
| Federal Funds Purchased | 98,352 | 476,362 |
| Securities Sold under Agreement to Repurchase | 2,464,138 | 3,072,122 |
| Trade Liabilities | | - |
| Other Borrowed Money | 5,025,309 | 5,807,418 |
| Liabilities on Acceptances | 3,075 | 4,684 |
| Subordinated Notes and Debentures | 300,000 | 300,000 |
| Other Liabilities | 865,411 | 783,478 |
| Total Liabilities | 63,481,813 | 68,935,994 |
| Minority Interest in Consolidated Subsidiaries | 1,189 | 547 |
| Equity | | |
| Preferred Stock | 283 | 178 |
| Common Stock | 33,898 | 42,989 |
| Surplus | 4,754,127 | 5,220,929 |
| Retained Earnings | 2,411,959 | 2,803,534 |
| Accumulated Other Comprehensive Income | 379,376 | 241,534 |
| Other Equity Capital | (14,124) | (12,536) |
| Total Equity Capital | 7,565,519 | 8,296,628 |
| Total Liabilities, Minority Interest and Equity Capital | 71,048,521 | 77,233,169 |

Savings Banks

Statement of Income - December 31, 2003

| | 12/31/2002 | 12/31/2003 |
|--|------------------|------------------|
| Total Interest Income | \$ 3,639,341 | \$ 3,436,523 |
| Total Interest Expense | 1,411,881 | 1,136,073 |
| Net Interest Income | 2,227,460 | 2,300,450 |
| Provision for Loan and Lease Losses | 100,010 | 90,875 |
| Income From Fiduciary Activities | 23,084 | 23,303 |
| Service Charges | 163,808 | 176,891 |
| Trading Revenue | 1,604 | 4,943 |
| Investment Banking, Advisory, Brokerage fees and Commissions | 25,645 | 20,836 |
| Venture Capital Revenue | (1,996) | (221) |
| Net Servicing Fees | (5,163) | (3,827) |
| Net Securitization Income | 80 | 50 |
| Insurance Commission and Fees | 30,070 | 63,290 |
| Net Gains (Losses) on sale of Assets | 74,923 | 90,579 |
| All Other Noninterest Income | 163,765 | 187,644 |
| Total Noninterest Income | 475,820 | 563,488 |
| Realized Gains (Losses) on Held-To-Maturity Securities | (128) | 708 |
| Realized Gains (Losses) on Available-For-Sale Securities | 30,826 | 66,606 |
| Salaries and Employee Benefits | 879,609 | 935,541 |
| Expenses of Premises and Fixed Assets | 234,907 | 264,554 |
| Goodwill Impairment Losses | 144 | 0 |
| Amortized Expenses and Impairment Loss For Other Intangibles | 18,490 | 28,339 |
| Other Noninterest Expense | 481,371 | 507,167 |
| Total Noninterest Expense | 1,614,521 | 1,735,601 |
| Income (Loss) Before Income Taxes | 1,019,447 | 1,104,776 |
| Applicable Income Taxes | 347,135 | 399,003 |
| Income (Loss) Before Extraordinary Items | 672,312 | 705,773 |
| Extraordinary Items | (437) | 0 |
| Net Income (Loss) | 671,875 | 705,773 |

CO-OPERATIVE BANKS

The co-operative bank industry within the Commonwealth experienced solid asset growth of \$996,420, or 8.59% in calendar year 2003, which was funded in large part through increases in deposit accounts. Increases in deposit accounts amounted to \$656,581, or 6.85%. The largest area of asset growth was in investment securities, which grew by \$569,052, or 20.74%. At the same time, loan growth was also strong as evidenced by the 8.08%, or \$605,263 increase in net loans and leases. The residential real estate market continued to fuel the success of the co-operative banks and continues to be an integral aspect of their business. The continued decline of other real estate owned within the industry's balance sheet, especially given the sluggish economy, high unemployment rate, and intense competition reflects favorably on the sound underwriting and credit administration practices in effect. Other real estate owned declined by \$229, or 9.43%.

The co-operative bank industry continued to invest in its branch network and technology infrastructure. Investment in premises and equipment increased by \$15,754, or 8.71%. The expanded capability of the internet continues to enhance the industry's ability to offer new services and features to their customers in an ever-changing marketplace.

Earnings performance, although down slightly from 2002, continues to be healthy. Net interest income increased by a modest \$11,672, or 2.91%. The impact of the continued historically low interest rate environment hampered management's ability to further lower the aggregate cost of deposits. Income from the sale of assets increased significantly by \$5,743, or 37.15%. At the same time, gains on the sale of investment securities rebounded from the losses suffered in 2002, as gains increased by \$8,974, or 168%. Management's ability to limit increases in noninterest expenses was hindered by their continued investment in premises and equipment. As a result, noninterest expenses increased by \$30,932, or 10.88%. However, increases in noninterest expenses outpaced increases in interest and noninterest income, which resulted in the 2.16%, or \$2,191 decline in net income for 2003.

Overall, the co-operative bank industry fared well in 2003. Experienced management teams maintained the financial condition of the co-operative bank industry through challenging economic times.

* All dollar amounts are reported in thousands.

Co-operative Banks

Statement of Condition - December 31, 2003

Assets

| | 12/31/2002 | 12/31/2003 |
|--|-------------------|-------------------|
| Non Interest Bearing Balances | \$ 288,789 | \$ 315,421 |
| Interest Bearing Balances | 117,906 | 84,206 |
| Securities Held to Maturity | 667,316 | 853,226 |
| Securities Available for Sale | 2,067,533 | 2,459,675 |
| Federal Funds Sold | 325,060 | 163,861 |
| Securities Purchased Under Agreement to Resell | 838 | 2 |
| Loans and Leases Held for Sale | 93,700 | 27,804 |
| Loans and Leases, Net of Unearned Income | 7,567,337 | 8,177,459 |
| Allowance for Loan and Lease Losses | 74,769 | 80,626 |
| Net Loans and Leases | 7,492,568 | 8,097,831 |
| Trading Assets | | - |
| Bank Premises and Equipment | 180,843 | 196,597 |
| Other Real Estate Owned | 2,429 | 2,200 |
| Investment in Unconsolidated Subsidiaries | | - |
| Customers Acceptances Outstanding | | - |
| Goodwill | 2,232 | 2,232 |
| Intangible Assets | 3,753 | 5,925 |
| Other Assets | 350,611 | 381,018 |
| Total Assets | 11,593,578 | 12,589,998 |

Liabilities

| | | |
|--|-------------------|-------------------|
| Non Interest Bearing Deposits | 743,456 | 822,296 |
| Interest Bearing Deposits | 8,830,945 | 9,408,686 |
| Total Deposits | 9,574,401 | 10,230,982 |
| Federal Funds Purchased | 4,307 | 6,781 |
| Securities Sold under Agreement to Repurchase | 5,685 | 11,862 |
| Trade Liabilities | | - |
| Other Borrowed Money | 714,838 | 939,546 |
| Liabilities on Acceptances | | - |
| Subordinated Notes and Debentures | | - |
| Other Liabilities | 59,199 | 50,068 |
| Total Liabilities | 10,358,430 | 11,239,239 |
| Minority Interest in Consolidated Subsidiaries | 370 | - |

Equity

| | | |
|--|-------------------|-------------------|
| Preferred Stock | 55 | - |
| Common Stock | 20,753 | 10,675 |
| Surplus | 826,765 | 921,371 |
| Retained Earnings | 372,449 | 407,843 |
| Accumulated Other Comprehensive Income | 17,583 | 14,478 |
| Other Equity Capital | (2,827) | (3,608) |
| Total Equity Capital | 1,234,778 | 1,350,759 |
| Total Liabilities, Minority Interest and Equity Capital | 11,593,578 | 12,589,998 |

Co-operative Banks

Statement of Income - December 31, 2003

| | 12/31/2002 | 12/31/2003 |
|--|----------------|----------------|
| Total Interest Income | \$ 665,925 | \$ 627,262 |
| Total Interest Expense | 265,295 | 214,960 |
| Net Interest Income | 400,630 | 412,302 |
| Provision for Loan and Lease Losses | 5,570 | 2,834 |
| Income From Fiduciary Activities | - | 0 |
| Service Charges | 18,592 | 19,867 |
| Trading Revenue | (461) | 0 |
| Investment Banking, Advisory, Brokerage fees and Commissions | 726 | 1,168 |
| Venture Capital Revenue | - | 0 |
| Net Servicing Fees | 2,185 | 1,340 |
| Net Securitization Income | - | 294 |
| Insurance Commission and Fees | 767 | 724 |
| Net Gains (Losses) on sale of Assets | 15,459 | 21,202 |
| All Other Noninterest Income | 16,139 | 18,491 |
| Total Noninterest Income | 53,407 | 63,086 |
| Realized Gains (Losses) on Held-To-Maturity Securities | 63 | 151 |
| Realized Gains (Losses) on Available-For-Sale Securities | (5,342) | 3,632 |
| Salaries and Employee Benefits | 155,430 | 174,237 |
| Expenses of Premises and Fixed Assets | 33,199 | 37,536 |
| Goodwill Impairment Losses | 72 | 0 |
| Amortized Expenses and Impairment Loss For Other Intangibles | 144 | 214 |
| Other Noninterest Expense | 95,337 | 103,127 |
| Total Noninterest Expense | 284,182 | 315,114 |
| Income (Loss) Before Income Taxes | 159,006 | 161,223 |
| Applicable Income Taxes | 57,699 | 62,611 |
| Income (Loss) Before Extraordinary Items | 101,307 | 98,612 |
| Extraordinary Items | 96 | 600 |
| Net Income (Loss) | 101,403 | 99,212 |

CREDIT UNIONS

The Commonwealth's credit unions continue to experience strong asset growth, as evidenced by total assets increasing to \$10,658,999 or 6.43% for 2003. The credit union movement continues to expand and evolve in the Commonwealth. Expansion of fields of membership as well as conversions to community charters have increased their ability to attract members and adapt to the ever-changing economic environment. This is evidenced by the growth in shares to \$8,892,431 or 5.92% from \$8,395,791. Much of the asset growth has been concentrated in real estate loans, as demand combined with increased lending authority through amendments to the Massachusetts General Laws and Code of Massachusetts Regulation's *Parity with Federal Credit Unions* has pushed total loans to \$6,223,886 or 6.89% growth from 2002. Despite increased risk through expanded lending authority and an uncertain economic environment; credit unions were able to maintain low loan losses and maintain adequate loan loss reserves. During 2003, state-chartered credit unions' provision for loan and lease losses declined to \$13,442 from \$15,215 or a decline of 11.65% and the allowance for loan and lease losses decreased to \$34,609 from \$37,631 in 2002 or a decline of 6.03%. Also, state-chartered credit unions recorded no other real estate owned for the second year in a row. This is reflective of the continued strong management and sound loan underwriting practices.

Credit unions have continued to expand their infrastructure as well as their product line. During 2003, credit unions continued to introduce expanded banking facilities and expand their branch networks, as well as introduce new products such as investment and insurance services to their membership. During 2003, fixed assets increased to \$120,105 from \$113,988 or 5.37%. This is coupled with an increase in non-interest expense to \$251,746 to \$270,674 or 7.52%. Despite the increased investment in fixed assets and increase in non-interest expenses, credit unions have benefited from the increase in other operating income and fee income from new products. Fee income increased to \$36,907 or 7.27% while other operating income increased to \$17,593 or 42.45%. Despite the decline in net income from higher expenses and a low interest rate environment, reserves remained strong with total equity capital increasing to \$1,296,134 from \$1,238,535 or 4.65%.

* All dollar amounts are reported in thousands.

Credit Unions

Statement of Condition - December 31, 2003

| | 12/31/2002 | 12/31/2003 |
|--|-------------------|-------------------|
| Assets | | |
| Cash and Investments | 3,955,744 | 4,203,778 |
| Loans and Leases, Net of Unearned Income | 5,860,563 | 6,258,495 |
| Allowance for Loan and Lease Losses | 37,631 | 34,609 |
| Net Loans and Leases | 5,822,932 | 6,223,886 |
| Land and Building | 113,988 | 120,105 |
| Other Fixed Assets | 27,451 | 29,324 |
| Other Real Estate Owned | - | - |
| Other Assets | 94,572 | 81,906 |
| Total Assets | 10,014,687 | 10,658,999 |
| Liabilities | | |
| Total Shares and Deposits | \$ 8,395,791 | 8,892,431 |
| Total Borrowings | 324,781 | 419,293 |
| Accrued Dividends Payable on Shares | 1,188 | 1,463 |
| Accounts Payable and Other Liabilities | 54,322 | 49,678 |
| Total Liabilities | 8,776,082 | 9,362,865 |
| Regular Reserves | 265,636 | 265,455 |
| Appropriation for Non-Conforming Investments | 438 | 388 |
| Undivided Earnings | 933,336 | 1,008,269 |
| Other Comprehensive Income (Loss) | 70 | 4 |
| Net Unrealized Gain/(Loss) on AFS | 36,732 | 19,735 |
| Other Reserves | 2,393 | 2,283 |
| Total Equity Capital | 1,238,535 | 1,296,134 |
| Total Liabilities + Equity Capital | 10,014,687 | 10,658,999 |

Credit Unions

Statement of Income - December 31, 2003

| | <u>12/31/2002</u> | <u>12/31/2003</u> |
|--|-------------------|-------------------|
| Total Interest Income | \$ 544,404 | \$491,644 |
| Total Interest Expense | 242,033 | 194,878 |
| Net Interest Income | 302,371 | 296,766 |
| Provision for Loan and Lease Losses | 15,215 | 13,442 |
| Fee Income | 34,407 | 36,907 |
| Other Operating Income | 12,359 | 17,593 |
| Gain (Loss) on Investments | 2,696 | 4,543 |
| Gain (Loss) on Disposition of Fixed Assets | 393 | 230 |
| Other Non-Operating Income | 3,655 | 5,404 |
| Total Noninterest Income | 53,510 | 64,677 |
| Employee Compensation and Benefits | 129,456 | 139,840 |
| Education and Promotional Expense | 9,550 | 10,152 |
| Loan Servicing Expense | 7,946 | 9,632 |
| Professional and Outside Services | 24,411 | 27,342 |
| Member Insurance | 2,695 | 2,953 |
| Operating Fees | 1,261 | 1,406 |
| Miscellaneous Operating Expenses | 7,874 | 9,125 |
| Travel and Conference Expense | 3,829 | 3,840 |
| Office Occupancy Expense | 19,967 | 19,397 |
| Office Operation Expense | 44,757 | 46,987 |
| Total Non-Interest Expense | 251,746 | 270,674 |
| Net Income (Loss) | 88,920 | 77,327 |